

The Role of the Audit & Governance Committee in the Scrutiny of the Treasury Management Strategy

Summary

1. The purpose of this report is to update members with regards to the new requirements for the council to comply with the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance ("the Code").
2. The revised Code was published in November 2009. From 2010/11, Audit & Governance Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies. This report details the requirements to be fulfilled by Audit & Governance Committee in accordance with the revised "Code".
3. Attached at Annex A are the 15 key changes that the revised "code" details. This list was included in the "Treasury Management Strategy Statement and Prudential Indicators for 2010/11 to 2014/15" report at paragraph 14. This scrutiny report is structured around these 15 revised points in "the code" to allow members to consider these areas of change in relation to the scrutiny of treasury management strategy.

Background

4. The Local Government Act 2003 requires the Council to approve the Treasury Management Strategy for the following year by 31 March. It also requires the Council to formally adopt the CIPFA Treasury Management in the Public Services Code of Practice and the Treasury Management Policy Statement. The "Strategy", "the code" and the "Policy Statement" were all approved at full Council on 26 February 2010 in the "Treasury Management Strategy Statement and Prudential Indicators for 2010/11 to 2014/15" report (known in this report from this point forward as the "TM Strategy Report").
5. The CIPFA Treasury Management in the Public Services Code of Practice "the Code" has been revised during 2009, in light of the Icelandic situation in 2008. The revised "code" emphasised 15 areas of key changes that were listed in the "TM Strategy Report" at paragraph 14. This list is attached at Annex A, the 15 points are labelled (a) to (o) and the remainder of this report highlights how the council is dealing with these requirements.
6. The purpose for bringing this report to Audit & Governance Committee is included in points (j) and (k) of Annex A, which detail the specific requirements for scrutiny. Points (h) and (i) detail the reporting requirements. Paragraph 15 of the "TM Strategy Report" states that "This strategy statement has been prepared in accordance with the revised Code.

Accordingly, the council’s Treasury Management Strategy will be approved annually by full Council and there will also be a mid year report. In addition there will be monitoring reports and regular review by members in both executive and scrutiny functions. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.”

7. Paragraph 16 of the “TM Strategy Report” goes on to detail the reports that will be reported to Audit & Governance Committee in their scrutiny role. An extract from table 1 of the “TM Strategy Report” is detailed below:

Area of Responsibility	Council/ Committee/ Officer	Frequency
Scrutiny of treasury management strategy	Audit & Governance Committee	Annually
Scrutiny of treasury management performance	Audit & Governance Committee	Quarterly

Extract from the “TM Strategy Report”: Table 1 Reporting Arrangements

8. Audit & Governance committee will receive the annual treasury management strategy, the quarterly monitoring reports, which will include the mid-year treasury management strategy review, and the annual outturn report. These regular assurance reports to the Audit & Governance Committee will allow them to fulfill their scrutiny role.
9. The Treasury Management Strategy as approved by full Council on 26 February 2010 is available on the council’s website – the “Treasury Management Strategy Statement and Prudential Indicators for 2010/11 to 2014/15” report, which went to Executive on 16 February 2010, the intranet link is:
[http://modgov.york.gov.uk/Published/C00000102/M00004324/\\$\\$ADocPackPublic.pdf](http://modgov.york.gov.uk/Published/C00000102/M00004324/$$ADocPackPublic.pdf)
 The recommendations included that “The Treasury Management Reporting arrangements set out in paragraph 16, table 1, as described by “the Code” and the terms of reference in the Constitution be amended to include that Audit & Governance Committee scrutinise the Treasury Management Strategy and Monitoring reports.”
10. The other revisions to “the code” listed in Annex A focus around - the adoption of the “code” (point a), risk (points b to e), the investment strategy (point f) and the policy on debt (point g), as well as skills and training of officers and members (points l & m) and that clearly defined policy is followed as set out by the S151 officer (points n & o).
11. Point (a) of Annex A requires the adoption of the revised code and the Treasury Management policy statement. This is fulfilled by the full Council approval of Executive recommendation C of the “TM Strategy Report”.
12. Point (b) effective management and control of risk is a prime objective of the council and is captured in the “TM Strategy Report” at paragraph 6 to 12. These paragraphs highlight the importance of the requirements of the Local Government Act 2003, the Prudential Code – “...ensure the council’s capital investment plans are affordable, prudent and sustainable“,

the investment strategy – “for giving priority to the security and liquidity of those investments” and effective treasury management operations.

13. Point (c) where the council's appetite for risk is clearly written in the “TM Strategy Report” at paragraph 5, states “The Council's investment priorities are the security of capital and the liquidity of its investments. The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments, see later in the section of the Creditworthiness Policy”.
14. Point (d), which requires the responsibility for treasury management decisions to be controlled by the authority, is detailed in the “TM Strategy Report” at paragraphs 78 to 80. Specifically it states “The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers”.
15. Point (e) requires that “Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support” is included in the “TM Strategy Report” at paragraphs 57 to 64 – the Investment strategy and also in paragraphs 65 to 71 –Creditworthiness Policy. Specific reference is included at paragraph 70 “Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and information, information on government support for banks and the credit ratings of that government support”.
16. Point (f) “Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits” this is included in the investment strategy and creditworthiness policy at paragraphs 57 to 71 of the “TM Strategy Report”.
17. Point (g) “Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities”. This Policy on Borrowing in Advance of need is clearly defined in the “TM Strategy Report” at paragraphs 42 to 44. It considers value for money, interest rates compared to borrowing rates, the pressure of an increasing borrowing requirement in one year, the consideration of estimated future increasing borrowing rates. All factors will be considered when taking such a decision and also the consideration of the overall borrowing strategy, paragraphs 34 to 41, the policy on gross and net debt paragraphs 41 to 51 and the debt restructuring considerations paragraphs 52 to 56.
18. Points (l) and (m) that are listed in Annex A are concerned with the necessary skills and training of officers and also give members the opportunity to access training. Officers in the area of treasury management attend regular seminars / workshops provided by the council's treasury management advisers and therefore keep their knowledge up to date of changes in the economic and market environment. Training is offered to members in the recommendations to this report in the form of a training presentation by officers to give members' an overview of what treasury management is and how borrowing and investments are managed in the council. In future, if further training is required the

council's treasury management advisers can be requested to provide specific up to date economic / market training.

19. Finally in points (n) and (o) of Annex A it is a necessity that "Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures...." and also "Responsibility for these activities must be clearly defined within the organization". This is clear in the "TM Strategy Report" in paragraph 81 that refers to the Scheme of Delegation and role of the section 151 officer. Also paragraph 10 "...Therefore, to enable effective treasury management, all operational decisions are delegated by the Council to the Assistant Director of Resources (Finance), who operates within the framework set out in this strategy and through the Treasury Management Policies and Practices...."
20. In conclusion, as a result of the revised "code" Audit & Governance Committee have been appointed as the scrutiny body for Treasury Management. This was approved by full Council and therefore in the light of these new changes the required reports as stated in paragraph 8 above will be brought to Audit & Governance Committee for monitoring purposes.

Consultation

21. Not applicable.

Options

22. It is a statutory requirement under Local Government Act 2003 for full Council to approve the Treasury management strategy and formally adopt CIPFA Treasury Management in the Public Services Code of Practice "the Code". The Strategy and the revised "code" were approved at full Council on 26 February 2010 and also Council approved "The Treasury Management Reporting arrangements set out in paragraph 16, table 1, as described by "the Code" and the terms of reference in the Constitution be amended to include that Audit & Governance Committee scrutinise the Treasury Management Strategy and Monitoring reports." No alternative options are available.

Corporate Priorities

23. Treasury management is an integral part of the council's finances providing for cash flow management and financing of capital schemes. It aims to ensure that the council maximises its return on investments, (whilst the priority is for security of capital and liquidity of funds) and minimises the cost of its debts. This allows more resources to be freed up to invest in the Council's priorities, values and imperatives, as set out in the Corporate Strategy. It therefore underpins all of the council's aims.

Implications

24. The implications are
 - Financial – the security of the Councils capital funds is a priority, maximising returns on investments is still key along with minimising the finance costs of debt.
 - Human Resources - there are no human resource implications to this report.
 - Equalities - there are no equality implications to this report.
 - Legal - there are no legal implications to this report.
 - Crime and Disorder - there are no crime and disorder implications to this report.
 - Information Technology - there are no information technology implications to this report.

- Property –there are no property implications to this report.
- Other - the revised code may have implications for the requirements placed on officers and members for the scrutiny and management of the treasury function.

Risk Management

25. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Recommendations

26. That Audit & Governance Committee:
- (a) Note the requirements of the revised 2009 CIPFA Treasury Management in the Public Services Code of Practice “the Code” approved at full Council on 26 February 2010.
 - (b) Receive these monitoring reports on a regular basis, acknowledge their ultimate responsibility for the treasury management function and appreciate fully the implications of treasury management policies and activities.
 - (c) Confirm their requirement for a training presentation by officers to give members an overview of treasury management - as detailed in paragraph 18 above.

Reason: That those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

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Report approved ✓ Date

Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all* **All** ✓

For further information please contact the author of this report

Background Working Papers

Local Government Act 2003 and amendments

CIPFA Prudential Code

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance ("the Code")

Treasury Management Strategy Statement and Prudential Indicators for 2010/11 to 2014/15

Annex

Annex A - Key Areas of Change in the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance ("the Code").